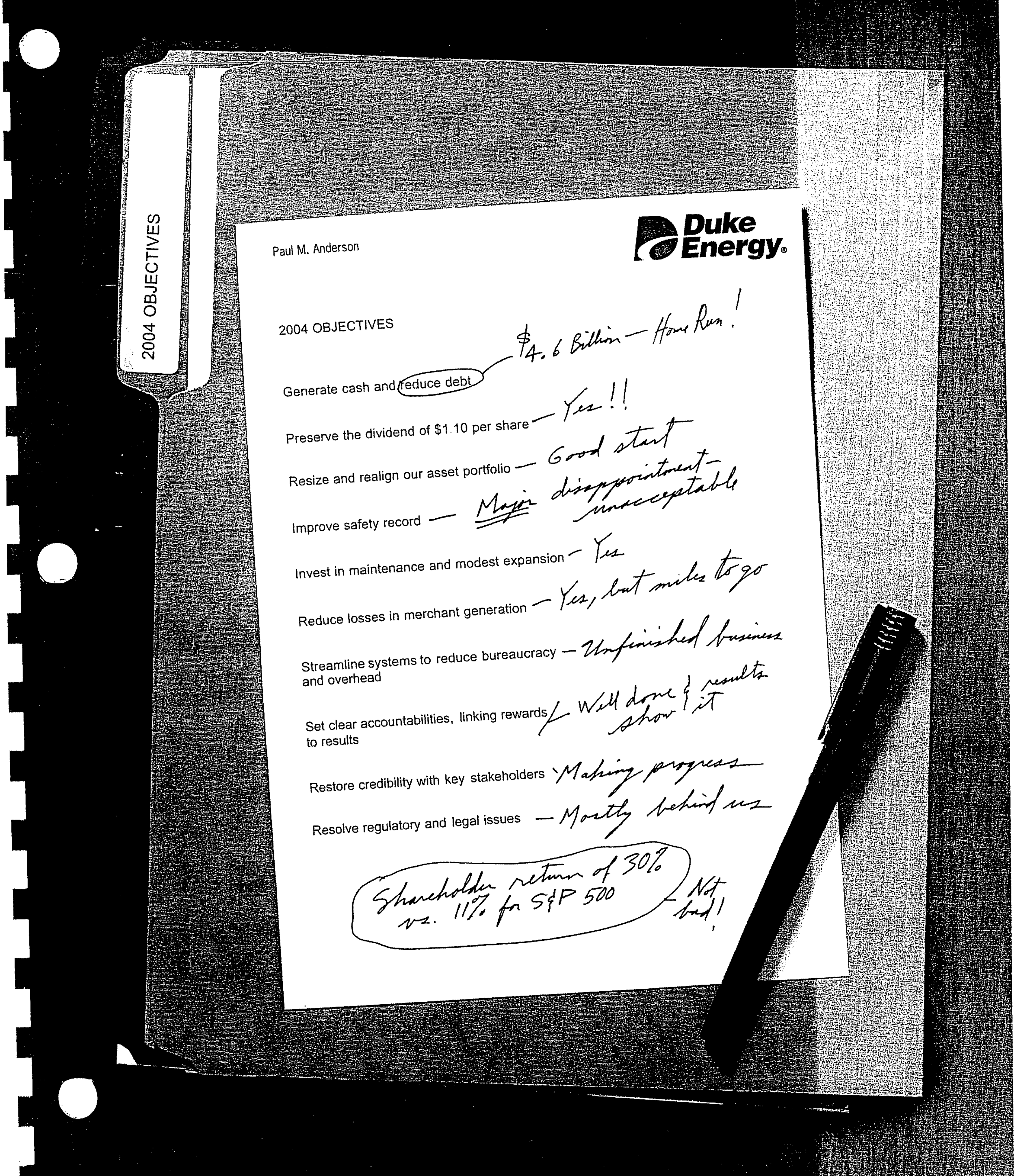
# Duke Energy 2004 Summary Annual Report



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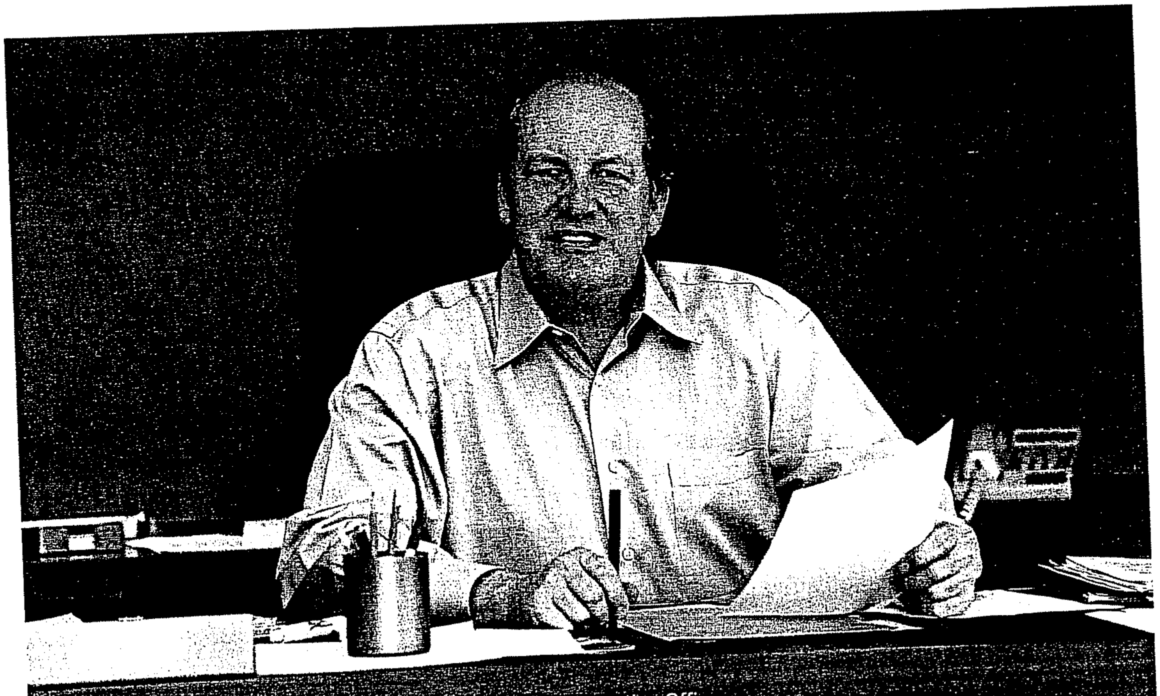


Paul M. Anderson, *Chairman of the Board and Chief Executive Officer*

**Dear Fellow Shareholder,**

My letter to you last year focused on the challenges our company faced as we sought to redefine our position in an industry which was itself emerging from a painful restructuring. At that time, we were long on promises and resolve, but rather short on results. We had assessed our situation, implemented some organizational changes, articulated an investment proposition and developed a charter for the company.

The charter listed five imperatives which formed the basis for a number of specific objectives for 2004. Assessing our performance against those objectives gives me a sense of accomplishment – even cautious pride – which is tempered by deep disappointment over where we have failed. We also have some unfinished business to address.

## Our Accomplishments

In January 2004, we detailed a financial plan for our investors. At that time, many in the financial community were skeptical as to our ability to achieve that plan, but we ended up significantly exceeding each of our commitments. We maintained the dividend of $1.10 per share, beat our ongoing basic earnings-per-share goal of $1.20 by 18 cents, reduced debt by $4.6 billion (lowering debt as a percent of total capital to 51 percent from 58 percent), maintained liquidity well over $1 billion and voluntarily contributed more than $500 million to our U.S. pension plan and nuclear decommissioning funds.

We were also able to significantly reduce DENA's (Duke Energy North America's) mark-to-market exposure and close out a number of legal and regulatory uncertainties that the company was facing. As a result, our credit rating stabilized, and the market also responded positively, as our share price rose by 25 percent to close the year at $25.33. We delivered a total return to shareholders of 30 percent for 2004 - outpacing the S&P 500's 11 percent.

Much of our financial plan was achieved by aggressively realigning our portfolio. We realized over $3.1 billion of proceeds from the sale of assets, such as our merchant plants in the southeast United States, our asset portfolios in the Asia-Pacific region and Europe, and two of our three deferred plants. (The sale of the third plant is expected to close in March 2005.)

| (In millions, except per-share amounts) | 2004 | 2003[b] | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| | Years Ended December 31 | | | | |
| **Statement of Operations** | | | | | |
| Operating revenues | **$ 22,503** | $ 22,080 | $ 15,860 | $ 17,889 | $ 15,800 |
| Operating expenses | **19,456** | 22,818 | 13,258 | 14,311 | 12,775 |
| Gains on sales of investments in commercial and multi-family real estate | **192** | 84 | 106 | 106 | 75 |
| (Losses) gains on sales of other assets, net | **(225)** | (199) | 32 | 238 | 214 |
| Operating income (loss) | **3,014** | (853) | 2,740 | 3,922 | 3,314 |
| Other income and expenses, net | **302** | 584 | 379 | 311 | 707 |
| Interest expense | **1,349** | 1,380 | 1,097 | 760 | 887 |
| Minority interest expense | **195** | 61 | 116 | 326 | 302 |
| Earnings (loss) from continuing operations before income taxes | **1,772** | (1,710) | 1,906 | 3,147 | 2,832 |
| Income tax expense (benefit) from continuing operations | **540** | (707) | 611 | 1,149 | 1,032 |
| Income (loss) from continuing operations | **1,232** | (1,003) | 1,295 | 1,998 | 1,800 |
| Income (loss) from discontinued operations, net of tax | **258** | (158) | (261) | (4) | (24) |
| Income (loss) before cumulative effect of change in accounting principle | **1,490** | (1,161) | 1,034 | 1,994 | 1,776 |
| Cumulative effect of change in accounting principle, net of tax and minority interest | **—** | (162) | — | (96) | — |
| Net income (loss) | **1,490** | (1,323) | 1,034 | 1,898 | 1,776 |
| Dividends and premiums on redemption of preferred and preference stock | **9** | 15 | 13 | 14 | 19 |
| Earnings (loss) available for common stockholders | **$ 1,481** | $ (1,338) | $ 1,021 | $ 1,884 | $ 1,757 |
| **Ratio of Earnings to Fixed Charges** | **2.3** | —[c] | 2.2 | 3.9 | 3.7 |
| **Common Stock Data[a]** | | | | | |
| Shares of common stock outstanding | | | | | |
| Year-end | **957** | 911 | 895 | 777 | 739 |
| Weighted average | **931** | 903 | 836 | 767 | 736 |
| Earnings (loss) per share (from continuing operations) | | | | | |
| Basic | **$ 1.31** | $ (1.13) | $ 1.53 | $ 2.59 | $ 2.42 |
| Diluted | **1.27** | (1.13) | 1.53 | 2.57 | 2.41 |
| Earnings (loss) per share (from discontinued operations) | | | | | |
| Basic | **$ 0.28** | $ (0.17) | $ (0.31) | $ (0.01) | $ (0.03) |
| Diluted | **0.27** | (0.17) | (0.31) | (0.01) | (0.03) |
| Earnings (loss) per share (before cumulative effect of change in accounting principle) | | | | | |
| Basic | **$ 1.59** | $ (1.30) | $ 1.22 | $ 2.58 | $ 2.39 |
| Diluted | **1.54** | (1.30) | 1.22 | 2.56 | 2.38 |
| Earnings (loss) per share | | | | | |
| Basic | **$ 1.59** | $ (1.48) | $ 1.22 | $ 2.45 | $ 2.39 |
| Diluted | **1.54** | (1.48) | 1.22 | 2.44 | 2.38 |
| Dividends per share | **1.10** | 1.10 | 1.10 | 1.10 | 1.10 |
| **Balance Sheet** | | | | | |
| Total assets | **$ 55,470** | $ 57,225 | $ 60,122 | $ 49,624 | $ 59,276 |
| Long-term debt including capital leases, less current maturities | **$ 16,932** | $ 20,622 | $ 20,221 | $ 12,321 | $ 10,717 |
| Capitalization | | | | | |
| Common equity | **45%** | 37% | 36% | 41% | 37% |
| Preferred stock | **0%** | 0% | 1% | 1% | 1% |
| Trust preferred securities | **0%** | 0% | 3% | 5% | 5% |
| Total common equity and preferred securities | **45%** | 37% | 40% | 47% | 43% |
| Minority interests | **4%** | 5% | 5% | 7% | 9% |
| Total debt | **51%** | 58% | 55% | 46% | 48% |

[a] Amounts prior to 2001 were restated to reflect the two-for-one common stock split effective January 26, 2001.
[b] As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" and Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations." In accordance with the transition guidance for these standards, Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles.
[c] Earnings were inadequate to cover fixed charges by $1,707 million for the year ended December 31, 2003.

In addition to generating funds, those sales repositioned Duke Energy as a company focused on the Americas and eliminated some of our lowest-return assets. We also challenged our real estate subsidiary, Crescent Resources, to become a major contributor of cash, and it responded with a stunning contribution of more than $440 million.

We moved into 2005 with a solid earnings base and the financial flexibility to once again control our own destiny. In February, we announced that we would buy back up to $2.5 billion in common stock over the next three years, based on our strong cash position. This share repurchase program will create value for shareholders, without inhibiting our ability to pursue future growth opportunities. We plan to pursue new growth cautiously, remaining mindful that we spent the year 2004 recovering from the effects of what in hindsight was an overly aggressive growth strategy.

**Pride in the Organization**

Given the significant achievements of the last 12 months, it is noteworthy that the members of the team that accomplished them were, with few exceptions, already here when I rejoined the company in November 2003. It is a tribute to that depth of talent that I was not forced to go outside the company to renew the organization. Using existing bench strength, we have significantly refreshed the organization and taken a number of steps to further develop the talent we have.

I am quite proud of the team we have in place today. Employees at all levels recognized the challenges that the company faced and stepped up to accept responsibility for resolving them. The company has done its part by aligning rewards with results, refocusing on talent management and reinvigorating a number of employee development programs. Particular attention has been focused on diversity, training, performance management and management development. During December 2004, the senior management team underwent a 360-degree evaluation, and a number of executive rotations were set in motion to ensure that we are developing the next generation of leadership at all levels.

Another source of pride was the contribution that Duke employees made to their communities. To commemorate Duke Power's 100th anniversary in 2004, our annual month-long Global Service Event was expanded to 100 days. An estimated 9,000 employees and retirees spent approximately 27,000 hours completing more than 500 service projects in the United States, Canada, Brazil and Peru.

Also in 2004, Duke Power proactively engaged leaders in business, industry, government, education and the nonprofit sector in economic development summits in North Carolina and South Carolina. In the Carolinas and elsewhere, Duke is actively involved in the communities in which we operate.

We also made progress in increasing our focus on customers and working with regulators to achieve win-win outcomes. For example, regulators in the Carolinas embraced an innovative approach where we share profits from Duke Power's bulk power marketing sales with our customers. Those dollars are funding job retraining programs and providing energy assistance to low-income households – improving the quality of life in our region. In North Carolina, some of these funds are also being used to reduce industrial rates, allowing those customers to offer more cost-competitive products and services.

We began a process of renewal at the Board level, beginning with an in-depth assessment led by an independent third party. As a result, we established a lead director, formed a Nuclear Oversight Committee, rotated committee heads and welcomed two new Board members, Roger Agnelli and Dennis Hendrix. We thank Bob Brown, George Dean Johnson and Leo Linbeck for their many contributions over the years; they will be retiring from the Board in May 2005.

**Disappointments**

While we are proud of our successes, we cannot ignore our failures. The biggest disappointment of 2004 was our unacceptable safety record. A number of measures can be used to judge an organization's safety record, but none is so personal or powerful as the number of employee and contractor fatalities. In 2004, one employee and three contractors lost their lives while working for Duke Energy. This is more than unacceptable – it is a tragedy for which I feel personally responsible. I would like to rationalize why those fatalities occurred, but I simply cannot. Safety is not something that can be prescribed or controlled through process alone. It relies on a culture that is nurtured from the top, and Duke's top management cannot allow safety to be overshadowed by other priorities.

Another disappointment was the fire last August at our Moss Bluff natural gas storage facility near Houston. Thankfully, no employee or contractor was injured, yet it is disappointing that such an incident could occur.

We have taken a number of steps to improve our safety focus. Later on in this report, Fred Fowler will address some of them. For my part, I will not feel that we have had a truly successful year unless that year is free of fatalities and major operational incidents.

**Unfinished Business**

We made significant progress in a number of areas, but we are left with unfinished business. Developing a sustainable business model for DENA is one such area. We made substantial progress in restructuring DENA and expect it will cut its losses by nearly half in 2005, but it may take a combination with one or more other parties, including other merchant generators, to provide the scope, scale and fuel diversity needed to realize an acceptable return on that investment.

A tremendous effort and significant funds were expended to comply with Sarbanes-Oxley Section 404, which mandates a thorough self-assessment of our internal controls over financial reporting. Despite the frustration of a rigid process and a challenging time frame, the effort proved very beneficial in helping us understand where we could improve our processes and systems. In 2005, we will build on what we have learned and re-engineer our financial systems, simplify our organization and reduce bureaucracy. Ultimately, this effort should greatly reduce our overhead costs in future years.

**Looking Forward**

As we enter 2005 and beyond, I am optimistic. The management objectives in our 2005 charter reflect the progress we made in 2004 to reclaim control of our future. This year, we are pursuing growth opportunities and reasserting our role as an industry leader.

The financial objective for 2005 is to ***deliver on our financial plan and provide superior total shareholder return.*** This reflects how far we have come – 2004's financial goal was to defend the dividend. We had an ongoing basic earnings-per-share target of $1.20 for employee incentive payouts in 2004. For 2005, we have increased that target by 33 percent to ongoing basic earnings per share of $1.60.

Another management objective is to ***establish industry-leading positions in core businesses and identify new energy-related growth strategies.*** We are in a position to grow any of our existing businesses if we find the right opportunity, and we will evaluate new but related lines of business to fuel future growth.

One 2005 objective relates to the unfinished business I discussed earlier: to ***position DENA to be a successful merchant operator with a sustainable business model.***

We will also ***enhance a high-performance culture by focusing on safety, inclusion and diversity, employee development, business structure and process simplification.*** The highest priority here is to improve our safety culture. We have created a shared safety goal for 2005 for the top 700 leaders in the company. If any Duke employee, contractor or subcontractor loses his or her life while doing work for us, this group will have their total short-term incentive payout reduced.

Our final objective for 2005 is to ***build stakeholder relationships and future shareholder value through effective leadership on key policy issues related to energy, regulation and the environment.*** It is clear that the United States needs cohesive environmental and energy policies that break the continuing logjam, and we intend to take a leadership role in developing and advancing those policies. For example, we will be proactive on the issue of global climate change. By helping shape public policy, we can advance the interests of our investors and customers, while also addressing the issue itself. Ideally, U.S. public policy should encourage a transition to a lower-carbon-intensive economy through a broad-based approach, such as a carbon tax or other mechanism which addresses all sectors of the economy.

As I close this letter, I would be remiss if I did not address the most critical concern I wrote of last year: restoring credibility with our key constituents. In 2004, I believe we made significant progress in re-earning their trust. While trust and credibility are hard to measure, we see positive indicators – in the tone and tenor of questions from our many stakeholders, in the spirit and resilience of our employees, and in the contracts and handshakes with our partners and customers. As I said last year, the task of building confidence will always be unfinished business for us, but I hope that you share my sense of real progress in this area and a positive view of our company's future.

I appreciate your many comments and suggestions over the past year and thank you for your continued investment in Duke Energy.

Sincerely,

**Paul M. Anderson**
Chairman of the Board and Chief Executive Officer

March 15, 2005

OUR 2005 CHARTER

We are Duke Energy, a leading energy company located in the Americas with an affiliated real estate operation.

Our purpose is to create superior value for our customers, employees, communities and investors through the production, conversion, delivery and sale of energy and energy services.

**To provide a stable platform for future growth, we must:**

- Enhance a high-performance culture by focusing on safety, inclusion and diversity, employee development, business structure and process simplification.
- Position DENA to be a successful merchant operator with a sustainable business model.
- Deliver on our financial plan and provide superior total shareholder return.
- Establish industry-leading positions in core businesses and identify new energy-related growth strategies.
- Build stakeholder relationships and future shareholder value through effective leadership on key policy issues related to energy, regulation and the environment.

**In conducting our business, we value:**

- Stewardship – A commitment to health, safety, environmental responsibility and our communities.
- Integrity – Ethically and honestly doing what we say we will do.
- Respect for the Individual – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- High Performance – The excitement and fulfillment of achieving superior business results and stretching our capabilities.
- Win-Win Relationships – Having relationships which focus on the creation of value for all parties.
- Initiative – Having the courage, creativity and discipline to lead change and shape the future.

**We will be successful when:**

- Our investors realize a superior return on their investment.
- Our customers and suppliers benefit from our business relationships.
- The communities in which we operate value our citizenship.
- Every employee starts each day with a sense of purpose, and ends each day with a sense of accomplishment.

**Dear Shareholders,**

Overall, 2004 was a year of considerable progress in Duke Energy's operations. I welcome this opportunity to report on those results, and review some of the past year's successes and disappointments.

Duke Energy's diverse portfolio allows us to balance the market risk in our nonregulated businesses with the relatively stable earnings that our regulated companies provide.

### Regulated Businesses Generated Steady Earnings

Duke Power contributed $1.47 billion in segment earnings before interest and taxes (EBIT) in 2004. The utility provides us with a solid base of earnings and cash flow. Duke Power is working hard at diversifying its customer base and attracting new business to our area. Duke Power's customers pay essentially the same average rate per kilowatt-hour today as in 1986. At about 21 percent below the national average (due to efficient operations, cost management and lower-cost nuclear generation) those competitive rates offer an important advantage to customers in our service territory, and are especially attractive to potential new industries.

In 2004, Duke Energy Gas Transmission's (DEGT's) 17,500 miles of transmission pipeline continued to move natural gas to key distribution companies along the U.S. East Coast and in Canada, contributing $1.31 billion in segment EBIT. Expansion activity has been brisk over the past year, with infrastructure projects completed in western Canada and in the U.S. Northeast, Mid-Atlantic, Southeast and Gulf Coast regions. Transportation reliability was also strong, with DEGT operations in both the United States and Canada setting numerous all-time peak volume records. Reliability, combined with outstanding customer service, contributed to contract renewal levels of nearly 100 percent in our northeast U.S. market.

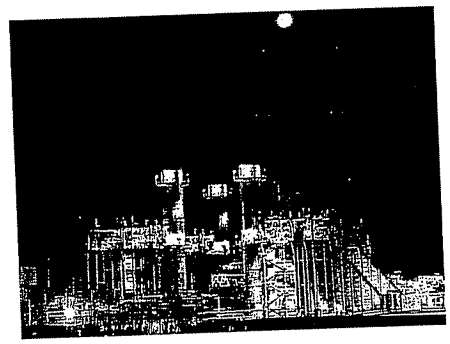
Weather – as it relates to heating and cooling needs – has a major impact on both DEGT and Duke Power, but the weather created a different challenge in 2004. For most of the southeastern United States, 2004 will be remembered as the year of the hurricanes. Several of our businesses experienced minor disruptions, but Duke Power's transmission and distribution system was

2004 operations leadership (above, left to right): Ruth Shaw, Duke Power; Bill Easter, Duke Energy Field Services; Fred Fowler, President and Chief Operating Officer, Duke Energy; Bobby Evans, Duke Energy Americas; Tom O'Connor, Duke Energy Gas Transmission; Art Fields, Crescent Resources largely spared from effects of the hurricanes. That allowed our line crews to provide needed support to utility customers in Florida and throughout the Southeast.

### Unregulated Businesses Saw Challenges and Opportunities

Paul provided an overview of our progress with Duke Energy Americas, which includes Duke Energy North America (DENA) and Duke Energy International (DEI). Those businesses ended 2004 with very different scale and scope than when they began. The sale of DEI's Asia-Pacific assets allows us to focus on our operations in Latin America. In 2004, DEI generated segment EBIT from continuing operations of $222 million and is looking for a 2 to 3 percent compound annual growth rate over the next three years, based on its 2004 ongoing segment EBIT of $236 million.

While unfinished business remains for DENA in 2005, we should not overlook the significant progress made in 2004. We sold our generating portfolio in the Southeast as well as two deferred plants in the West – and expect to close on the sale of a third in March 2005. We also changed the DENA business model to focus on contracting a larger share of electric generation through tolls and capacity sales. (Tolls are agreements to sell all or part of a plant's capacity or production for a fee.) We are now beginning to see the benefits of that approach. For example, in 2004 DENA sold more than 50 major tolls and future capacity contracts to investor-owned utilities, municipalities and other customers, adding significantly to DENA revenue for 2005 and beyond. Additionally, DENA reduced operating expenses by nearly $180 million. We expect to cut DENA's $288 million ongoing segment EBIT loss from continuing operations in 2004 roughly in half, to a projected ongoing EBIT loss of approximately $150 million in 2005. We continue to pursue various options that will create a sustainable business model for DENA, including consideration of potential business partners.



Duke Energy North America's Moss Landing facility in California is one of the largest and most efficient generating plants in the state. (Photo: David Sievert)

While market conditions have challenged DENA, they have provided opportunities for our other businesses. Record-high crude oil prices meant a blockbuster year for Duke Energy Field Services (DEFS), generating EBIT from continuing operations of $380 million to Duke Energy. DEFS is the largest processor of natural gas liquids (NGLs) in the United States, and NGL prices roughly track the price of crude oil. But it is not only the price of crude that is helping DEFS. Even in a record-breaking year, DEFS initiated business improvements that reduced costs for its ongoing operations by $30 million.

In February 2005, we reached agreement with ConocoPhillips to restructure our 70 percent ownership of DEFS into an equal partnership, which will reduce our exposure to commodity price risk and provide more than $500 million in pre-tax cash to Duke Energy. The deal will also transfer DEFS' natural gas gathering and processing facilities and ConocoPhillips' natural gas liquids system in western Canada to DEGT – adding significantly to the scope, scale and diversity of DEGT's Canadian operations.

Crescent Resources, our real estate and land management subsidiary, concentrated on the strongest segments of the U.S. real estate market in 2004, generating record results of $240 million in segment EBIT from continuing operations. While Crescent regularly refreshes its property holdings, 2004 results reflected an opportunistic sale of property in the Washington, D.C. area. Going forward, we expect Crescent's segment EBIT contribution to return to a more historic level of approximately $150 million in 2005.

### Legal Issues Resolved

We made tremendous progress in 2004 in resolving many of the company's regulatory and legal risks. Most significantly, a comprehensive settlement with western U.S. power market participants, approved by the Federal Energy Regulatory Commission in December, provided needed closure to issues that arose in that market in 2000 and 2001. We were also gratified that the U.S. Attorney closed an investigation into Duke Power's 1998 to 2000 accounting practices, concluding that no action was warranted against the company or its employees.

### Safety Performance Must Improve

Regarding safety, I can only say that our performance in 2004 was, in a word, unacceptable. Four people who came to work at Duke Energy facilities last year did not go home to their families. In response, we are building a zero-injury safety culture to prevent employee and contractor injuries.

- We have communicated a new safety vision to all employees that aims for zero injuries through continuous safety improvement, and we are setting the same expectations for our contractors.
- We are leading this culture change from the top – every member of the Expanded Executive Committee has personal safety objectives that spell out exactly how they will lead their organization to an improved safety record.
- I will discuss in person our safety expectations with more than 2,500 managers and supervisors in 2005.
- Business units are conducting employee safety perception surveys, and I will personally review the safety improvement plans developed in response to those surveys.

Hector Gutierrez and Pilar Dávila of Duke Energy Peru's Lima office brighten the educational experience for local elementary students with a fresh coat of paint for their desks.

### We Gave Back to Our Communities

To customers and communities, our employees are the face of Duke Energy. Corporate giving and volunteerism remain hallmarks of Duke Energy, and in 2004 we continued to make a real difference in our communities in the following ways:

- Duke Energy marks its birthday each year with a Global Service Event. In 2004, thousands of employees and retirees participated in more than 500 volunteer projects in 170 communities where Duke Energy operates. Most of the projects helped improve the lives of children, senior citizens and disabled individuals. In Peru, for example, employees focused on children and education. They donated books and school supplies, painted classrooms, served lunch and organized activities.
- Duke Energy employees were recognized with Ethics in Action's Community Care Award for developing innovative community partnerships and programs serving the residents of British Columbia.
- In the Carolinas, we are leading economic development efforts to diversify our region's economy and provide opportunities for growth. That's good for Duke Power and good for the region. In 2004, Duke Power contracted more than $23.3 million of new annual electric load (compared to $6.2 million for 2003), and nearly 200 additional projects are pending.
- Crescent Resources won accolades from community leaders and state officials for committing to sell nearly 3,000 acres and to make a one-time multi-million-dollar gift to the state of North Carolina to expand Lake James State Park almost sixfold.
- The Texas Corporate Wetlands Restoration Partnership, led by DEGT employees, participated in one of only 12 projects honored nationwide by Coastal America – a partnership of federal agencies and state and local private organizations. Our work on the San Jacinto battleground project near Houston contributed to the restoration of 115 acres of historic marshland as well as adjacent prairie and bottomland forest.

These are just a few examples of the many ways the people of Duke Energy work to improve our communities, economy and environment. On the following pages, the leaders of our businesses will tell you more about their performance and future objectives.

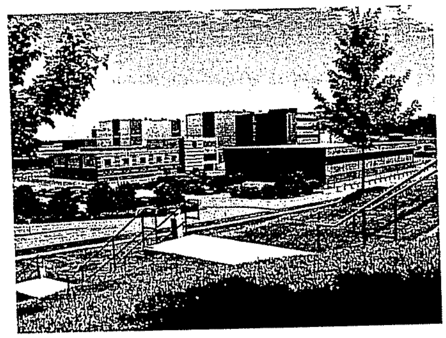
Sincerely,

**Fred J. Fowler**

President and Chief Operating Officer

In 2004, Duke Power celebrated its 100th anniversary in a way that honored our heritage – by taking a leading role in advancing economic development in the Carolinas.

In recent years, textiles and other industries that were once the bedrock of the region's economy have steadily declined. Our competitive electric rates are one way to attract new business. But energy costs are just one aspect of a region's commercial appeal. Much like our founders, who used electricity to help drive the textile boom early in the 20th century, we are working to strengthen and diversify our economy and expand our customer base by attracting new business and industry to our service territory.



Catawba Nuclear Station in York County, S.C., set a new Duke Power reliability record in 2004, and was recognized by the U.S. Nuclear Regulatory Commission for safe operations.

**Major accomplishments:**

✓ Duke Power jump-started the economic development engine by bringing more than 500 business, industry, government, nonprofit and academic leaders together for two Carolinas Competitiveness Forums in 2004.

✓ We are already seeing results from our push to help recruit and retain manufacturing. Major companies like Merck and Dell, and many smaller businesses, have announced plans to locate facilities in Duke Power's service territory.

✓ Regulators embraced our plan to share some of the profits from our bulk power marketing sales 50-50 with shareholders and customers. Programs funded by these sharing arrangements help pay energy bills for low-income residents, fund workforce training at community colleges, help reduce industrial rates in North Carolina, and support energy-efficient industrial improvements and local economic development initiatives in South Carolina.

✓ Duke Power's generating fleet continues to excel in reliability and efficiency. Catawba Nuclear Station set a new company reliability record in September, operating for 531 continuous days, and Electric Light & Power magazine named Marshall Steam Station the most efficient coal-fired station in the United States.

No amount of business achievement can make up for the tragic loss of three of our contractors in 2004. Ensuring the safety of employees, contractors and customers remains a core Duke Power value, and we are focused intently on both the cultural and process changes needed to reduce avoidable accidents, injury and risk.

Looking ahead, our growth forecasts indicate a need for new base-load generation within the next decade. We are evaluating options to meet that need in ways that are both economical and environmentally sound. We are upgrading a number of our existing coal-fired stations with state-of-the-art environmental equipment, and evaluating emerging clean-coal technologies. The relicensing of our hydroelectric facilities, currently underway, will ensure the continuation of hydropower as an economical and emission-free energy resource, while preserving water quality and recreational access. And to secure the option of future nuclear generation capacity, we are in the initial stages of preparing a combined construction and operating license application for a new, advanced-design nuclear plant.

As Duke Power enters its second century, we continue to build on the fundamentals of customer service, operational performance, safety, responsible citizenship and innovation.

— **Ruth Shaw,** *President and Chief Executive Officer, Duke Power*

**Profile:** One of the largest investor-owned electric utilities in the United States, Duke Power delivers safe, reliable and economically priced electricity to more than 2 million customers in North Carolina and South Carolina.

| Operating Data | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Franchised Electric** | | | | | |
| Sales, gigawatt-hours | **82,708** | 82,828 | 83,783 | 79,685 | 84,766 |
| Nuclear capacity factor[a] | **90%** | 91% | 95% | 92% | 92% |
| Average number of customers | **2,197,000** | 2,160,000 | 2,117,000 | 2,117,000 | 2,072,000 |

[a] Includes 100 percent of Catawba Nuclear Station, which is 12.5 percent owned by Duke Power.

Duke Energy Gas Transmission (DEGT) pipelines are strategically located with access to diverse supply basins and growing markets throughout North America, and our storage facilities offer customers reliability and seasonal flexibility.

We expect demand for natural gas to grow by an average 2 to 3 percent annually in our key markets over the next five years. Our challenge is to keep pace with that demand, by developing the infrastructure needed to connect new supplies to growing markets.

**Major accomplishments:**

✓ Three natural gas pipeline and two gas storage expansion projects began to serve DEGT customers in 2004, adding delivery capacity for customers in the U.S. Northeast, Southeast and Mid-Atlantic states. Storage facility expansions in Louisiana and Virginia increased available gas storage capacity by 1.8 billion cubic feet.

✓ The 110-mile extension of the Gulfstream pipeline from central Florida to the state's east coast was completed in February 2005, doubling the pipeline's firm contracted capacity. (Gulfstream is a joint development of Duke Energy and Williams.)

✓ Multiple peak-volume days on our Texas Eastern, Algonquin, East Tennessee, Gulfstream and Union Gas systems demonstrated our ability to operate reliably and provide access to growing markets.

✓ In August, DEGT employees mobilized quickly and effectively in response to a fire at our Moss Bluff gas storage facility near Houston. We regret that this incident occurred and the inconvenience that it caused our neighbors and customers.

✓ A successful "open season" in the northeast United States and eastern Canada signaled strong customer demand for new natural gas transportation and storage solutions. Many of those responses should result in new contracts and several expansion projects over the next three to five years.

✓ Union Gas added more than 31,000 new customers in 2004 through focused marketing efforts and reliable service.

✓ Rate proceedings involving our BC Pipeline and Union Gas businesses were resolved fairly for both customers and shareholders.

Plant operator Charles Barker monitors storage operations at the Kingsport liquefied natural gas storage facility, on DEGT's East Tennessee Natural Gas pipeline system.

Over the next several years, we plan to invest more than $1 billion in DEGT facility expansions. We expect liquefied natural gas (LNG) to play a major role in North America's future natural gas supply. LNG import terminals are proposed along the Gulf Coast and the northern East Coast, including the Canadian Maritimes, and most of them would have ready access to Duke Energy's existing pipelines and storage facilities. We intend to be a major player in providing the pipeline expansion and storage needed to connect this new supply to growth markets.

Our assets are equally well-positioned in the growing Western Canadian Sedimentary Basin, and the addition of ConocoPhillips' natural gas liquids operations and DEFS' gathering and processing facilities to our system in 2005 will enhance that position. We are ready and willing to expand further, as natural gas drilling activity increases in northeastern British Columbia.

As I move on to pursue new career opportunities at Duke Energy, I am confident about the continued success of the business that Martha Wyrsch will now lead.

— **Tom O'Connor,** *President and Chief Executive Officer, Duke Energy Gas Transmission*

**Profile:** Duke Energy Gas Transmission serves its customers by transporting natural gas from North America's major supply areas to growing markets in the northeastern and southeastern United States and in Canada. DEGT also stores natural gas, distributes natural gas to retail customers in Ontario, and gathers and processes natural gas for customers in western Canada.

| Operating Data | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Natural Gas Transmission** | | | | | |
| Throughput, trillion British thermal units (TBtu)[a] | **3,332** | 3,362 | 3,160 | 1,781 | 1,771 |
| Storage capacity, billion cubic feet | **258** | 257 | 254 | 101 | 98 |

a Represents share of capacity owned by DEGT.

Duke Energy Field Services (DEFS) captured enormous value from strong natural gas liquids (NGL) prices and gas processing margins in 2004. We also improved operating and commercial performance, and benefited from increased production and a strategic acquisition. The combination of these factors resulted in record earnings for the DEFS joint venture.

**Major accomplishments:**

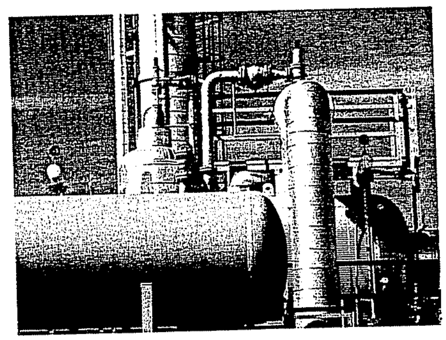
✓ We were able to handle higher natural gas volumes in many areas in 2004, due to increased drilling by our customers, with little or no additional investment. For example, we successfully processed and delivered almost 10 percent more gas on our Oklahoma "supersystem" by redistributing the flow of natural gas among the system's four plants.

✓ We delivered strong marketing results and continued to renegotiate natural gas supply contracts in order to better align our interests with those of producers, reduce earnings volatility and improve profitability.

✓ DEFS acquired natural gas gathering, processing and transmission assets in southeast New Mexico from ConocoPhillips for $74 million. The acquisition included three processing plants and more than 1,000 miles of gathering pipeline. In addition to adding new customers and volumes, these assets, in combination with our existing facilities, improve market access and reliability for our customers.

✓ The number and severity of employee and contractor injuries declined at DEFS in 2004, as evidenced by a 40 percent reduction in safety-related lost workdays and more than a 50 percent reduction in contractor injuries versus 2003. Tragically, an employee of our former TEPPCO affiliate lost his life in a work-related accident, underscoring the importance of maintaining safety as our top priority.

✓ We successfully consolidated our computer operations into Duke Energy's computing center in Charlotte, eliminating our Denver data center and generating significant efficiency and cost improvements.



The Platteville facility is one of DEFS' newest gathering and processing plants, built to process increased natural gas production in the Denver-Julesburg Basin area of Colorado.

DEFS is poised to deliver another exceptional year of earnings in 2005. We expect commodity prices to remain above traditional levels, though perhaps somewhat lower than 2004.

In this, my second year at the helm at DEFS, we are working to further improve our underlying operational and commercial performance through continued application of best practices, by capturing efficiencies inherent in our large operating scale and scope, and by continually improving our processes and information systems.

Two 2005 transactions will allow us to focus on further strengthening our competitive position in the United States. As part of the pending restructuring of DEFS into a 50/50 joint venture with ConocoPhillips, we expect to receive additional U.S. midstream assets and our Canadian operations will move to DEGT. In addition, with the February 2005 sale of TEPPCO, our affiliated master limited partnership, we exited the business of transporting refined products and crude oil, as well as selected natural gas and NGL activities. Going forward, we will invest to improve the capability of our existing assets and pursue selective growth opportunities. Given today's competitive landscape, we will also evaluate the merits of establishing another master limited partnership.

— **Bill Easter,** *Chairman, President and Chief Executive Officer, Duke Energy Field Services*

**Profile:** The largest producer of natural gas liquids in North America and one of the largest marketers, Duke Energy Field Services gathers, processes, transports, markets and stores natural gas and produces, transports and markets NGLs. DEFS is a joint venture of Duke Energy and ConocoPhillips.

| Operating Data | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Field Services** | | | | | |
| Natural gas gathered and processed/transported, TBtu/day | **7.3** | 7.4 | 7.9 | 8.0 | 7.0 |
| Natural gas liquids production, thousand barrels per day | **363** | 353 | 379 | 384 | 343 |
| Average natural gas price per million Btu | **$ 6.14** | $ 5.39 | $ 3.22 | $ 4.27 | $ 3.89 |
| Average natural gas liquids price per gallon | **$ 0.68** | $ 0.53 | $ 0.38 | $ 0.45 | $ 0.53 |

## Duke Energy North America – Reducing Merchant Risk

Our goal for DENA in 2004 was to stabilize the business. We accomplished that through asset sales and cost efficiencies, and by moving from a commodity trading model to a stronger focus on marketing energy to customers from our own assets. An anticipated $300 million ongoing segment EBIT loss came in at $288 million, including unanticipated mark-to-market losses of $25 million. A team of employees committed to controlling costs and optimizing resources made it possible to achieve our financial goal.

**Major accomplishments:**

✓ The sale of our fleet of eight merchant plants in the southeast United States came sooner than many predicted. Completed in August, the sale boosted Duke Energy's 2004 divestiture proceeds by approximately $975 million, including about $500 million in tax benefits and a note receivable of approximately $50 million.

✓ We sold two partially completed plants in 2004 (Luna in New Mexico and Moapa in Nevada), as well as surplus turbines and related equipment. Proceeds from those transactions totaled approximately $600 million, including about $270 million in tax benefits. At year-end, we signed an agreement to sell a third deferred-construction plant (Grays Harbor in Washington state).

✓ We mitigated our earnings volatility by significantly reducing the exposure to fluctuating commodity prices associated with our mark-to-market portfolio.

✓ DENA strengthened its position in long-term gas storage capacity, providing flexibility to fuel our own plants as well as serve other customers.

✓ Duke Energy's settlement of refund proceedings and other litigation related to the 2000-2001 western U.S. energy crisis cleared the way for some of the large utilities in those markets to return as DENA customers.

✓ DENA's Lee facility in Illinois added "black start" capability in 2004 that will allow the unit to start without any outside electrical supply. Even during a blackout, it can be brought into service to help ensure the stability and reliability of the electric grid in the Midwest.

✓ We made substantial progress on winding down the Duke Energy Trading and Marketing joint venture with ExxonMobil. By the end of 2004, we had completed or signed transactions to sell about 90 percent of that business.

Production technicians Mike Armstrong, Benny King and Steve Anderson ensure that the Washington Energy Facility in southeastern Ohio operates safely and reliably. The plant has had no recordable injuries since it opened in 2001.

Success at DENA is measured in relative terms. We are determined to reduce DENA's losses and return the business to profitability. We expect to cut our ongoing EBIT loss nearly in half in 2005, to approximately $150 million. By the end of 2006, on an ongoing basis, we anticipate breaking even, and we look forward to being profitable again in 2007.

We will continue to control costs and manage our portfolio with smart business decisions. We have strong assets in growing areas, and energy demand continues to grow. We intend to be a strong player in the merchant energy market.

As in the rest of Duke Energy, we are renewing our emphasis on safety. Many of our plants have perfect safety records. We are challenging ourselves to spread that zero-injury culture across our entire fleet.

**Profile:** Duke Energy North America owns and operates merchant power generation facilities, and markets electricity, natural gas, energy management and related services to wholesale customers throughout North America.

| **Operating Data** | **2004** | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Duke Energy North America** | | | | | |
| Actual plant production, gigawatt-hours | **21,884** | 24,046 | 24,962 | 20,516 | 18,523 |
| Proportional capacity in operation, megawatts[a] | **9,890** | 15,820 | 14,157 | 6,799 | 5,134 |

[a] Represents share of capacity owned by DENA.

## Duke Energy International – A Sharper Focus

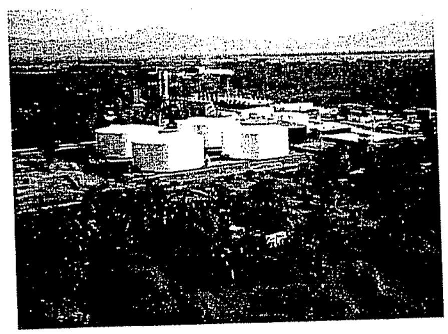
Duke Energy International (DEI) began 2004 with a goal of exiting the European and Asia-Pacific markets – to focus on increasing the returns from our power generation business in Latin America. Energy demand in that part of the world is growing at 4 to 6 percent a year, two to three times the growth rate in North America, and DEI owns generation assets in seven Latin American countries.

DEI's continuing operations delivered solid results in 2004, contributing $222 million in EBIT toward Duke Energy's overall goals.

**Major accomplishments:**

✓ With the US$1.2 billion sale of our assets in Australia and New Zealand in April (including $840 million of debt assumed by the buyer), Duke Energy reached its 2004 divestiture target just four months into the year. In May, DEI sold its 30 percent equity interest in the Cantarell nitrogen facility in Mexico, and by year-end, our exit from Europe was largely complete.

✓ Planta Arizona in Guatemala completed its dual-fuel conversion, making it one of the most efficient thermal plants in Central America. By using a mix of different fuels, Duke Energy has become one of the lowest-cost energy providers in that region.



The 160-megawatt Planta Arizona in Guatemala generates electricity efficiently and at low cost, using dual-fuel technology.

✓ In Brazil, a successful contracting strategy significantly reduced our exposure to low-price spot markets in 2004 and eliminated that exposure for 2005. At the same time, we are preserving capacity for 2006 and beyond, in anticipation of improving market conditions and price levels.

✓ DEI's overall safety record improved in 2004. DEI Brazil became the first company to earn the Eloy Chaves Medal, the most prestigious safety award in the country's electric power industry, for three consecutive years.

✓ Our employees in Brazil have worked for more than five years without a lost-time incident, and our Peru and Argentina facilities recently surpassed two years without a lost-time incident.

✓ Duke Energy Peru became the first company in Peru, and the first in the Duke Energy system, to obtain simultaneous international certifications for operations management, environmental management, and occupational health and safety practices, based on International Organization for Standardization (ISO) guidelines.

DEI's operations are well-positioned to achieve higher earnings and returns in the near term, and to benefit from continued growth in energy demand in Latin America.

— **Bobby Evans,** *President and Chief Executive Officer, Duke Energy Americas*

**Profile:** Duke Energy International owns and operates power generation facilities, and sells electric power and natural gas. Its primary focus is on power generation activities in Latin America.

| Operating Data | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **International Energy** | | | | | |
| Sales, gigawatt-hours | **17,776** | 16,374 | 18,350 | 15,749 | 14,154 |
| Proportional capacity in operation, megawatts[a] | **4,139** | 4,121 | 3,917 | 3,968 | 3,768 |

[a] Represents share of capacity owned by DEI.

Our challenge in 2004 was to contribute $400 million in cash and $155 million in EBIT to Duke Energy. We hit those targets – and then some – thanks to continuing strong demand for investment-grade real estate. At the same time, we kept all of our platforms – commercial, residential and multi-family – growing and well-positioned for 2005 and beyond. We didn't hold a liquidation sale to meet 2004's financial goals. We executed our strategy, continued to invest in our base of assets and enhanced our development and land management practices, upholding our reputation as a "green" developer. Every segment of our business contributed to our success in 2004.

**Major accomplishments:**

✓ Crescent completed master planning for Potomac Yard, a 300-acre mixed-use site adjacent to Reagan National Airport, and sold most of the property to other developers in 2004. We retain ownership of two office buildings under construction, and the General Services Administration has leased 405,000 square feet of that space for the Environmental Protection Agency.

✓ In the residential market, Crescent reached its all-time record of more than $413 million in individual homesite sales.

✓ Property sales are brisk at Palmetto Bluff, an environmental preserve and residential community in South Carolina's lowcountry. A portion of every real estate transaction funds the Palmetto Bluff Conservancy, a nonprofit organization dedicated to natural resource protection on the property.

✓ We sold nearly 3,000 acres of lakefront property and made a one-time multi-million-dollar gift to the state of North Carolina to expand Lake James State Park. The sale, which closed in January, is a key component in a master plan to drive economic growth in the Lake James region and preserve the lake environment for wildlife and recreation.

✓ We're participating in the development of a major mixed-use development in Charlotte, N.C., that will include the new corporate headquarters for Piedmont Natural Gas.

The Auberge Inn at Crescent's Palmetto Bluff community in South Carolina opened in 2004, along with the Jack Nicklaus-designed May River golf course.

Most segments of the real estate market held strong in 2004, and Crescent is well-positioned for the future regardless of market conditions. We are investing primarily in the Southeast and the Southwest – growing regions with diverse economies. Studies show that 85 percent of growth in the United States is occurring in the coastal states, plus Arizona and Nevada.

Within this geographic area, we offer a diversified mix of high-growth product types, including second homes and retirement homes for baby boomers. We're broadening our reach into that market with more diverse real estate offerings, and branching out into residential condominiums, primarily in Florida. We'll continue to adjust our portfolio to invest in both residential and commercial growth markets.

It should be noted that 2004 was a banner year, and it's unrealistic to expect the same results on an annual basis. We can promise, however, to continue to capitalize on opportunities without taking undue risks, and to fulfill our commitments to Duke Energy and its investors.

— **Art Fields,** *President and Chief Executive Officer, Crescent Resources*

**Profile:** Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects in nine states. Crescent Resources has received numerous awards for its environmentally sensitive property development strategies and partnerships with environmental and wildlife groups.

| **Operating Data** | **2004** | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Crescent Resources** | | | | | |
| Residential lots sold | **2,473** | 2,060 | 1,221 | 1,075 | 955 |
| Commercial square footage sold, in millions | **2.1** | 1.7 | 1.2 | 3.1 | 2.0 |
| Multi-family units sold | **273** | 950 | — | — | — |
| Surplus (legacy) land sold, acres | **9,087** | 5,088 | 10,982 | 11,402 | 8,562 |

| | Years Ended December 31 | | |
|---|---|---|---|
| (In millions, except per-share amounts) | **2004** | 2003 | 2002 |
| **Operating Revenues** | | | |
| Non-regulated electric, natural gas, natural gas liquids and other | **$ 14,275** | $ 14,178 | $ 8,780 |
| Regulated electric | **5,111** | 4,960 | 4,880 |
| Regulated natural gas | **3,117** | 2,942 | 2,200 |
| Total operating revenues | **22,503** | 22,080 | 15,860 |
| **Operating Expenses** | | | |
| Natural gas and petroleum products purchased | **11,335** | 11,419 | 5,360 |
| Operation, maintenance and other | **3,568** | 3,796 | 3,304 |
| Fuel used in electric generation and purchased power | **2,098** | 2,075 | 2,191 |
| Depreciation and amortization | **1,851** | 1,792 | 1,506 |
| Property and other taxes | **539** | 526 | 533 |
| Impairment and other related charges | **65** | 2,956 | 364 |
| Impairments of goodwill | **—** | 254 | — |
| Total operating expenses | **19,456** | 22,818 | 13,258 |
| **Gains on Sales of Investments in Commercial and Multi-Family Real Estate** | **192** | 84 | 106 |
| **(Losses) Gains on Sales of Other Assets, net** | **(225)** | (199) | 32 |
| **Operating Income (Loss)** | **3,014** | (853) | 2,740 |
| **Other Income and Expenses** | | | |
| Equity in earnings of unconsolidated affiliates | **161** | 123 | 218 |
| (Losses) Gains on sales and impairments of equity investments | **(4)** | 279 | 32 |
| Other income and expenses, net | **145** | 182 | 129 |
| Total other income and expenses | **302** | 584 | 379 |
| **Interest Expense** | **1,349** | 1,380 | 1,097 |
| **Minority Interest Expense** | **195** | 61 | 116 |
| **Earnings (Loss) from Continuing Operations Before Income Taxes** | **1,772** | (1,710) | 1,906 |
| **Income Tax Expense (Benefit) from Continuing Operations** | **540** | (707) | 611 |
| **Income (Loss) from Continuing Operations** | **1,232** | (1,003) | 1,295 |
| **Discontinued Operations** | | | |
| Net operating loss, net of tax | **(10)** | (27) | (261) |
| Net gain (loss) on dispositions, net of tax | **268** | (131) | — |
| **Income (Loss) from Discontinued Operations** | **258** | (158) | (261) |
| **Income (Loss) Before Cumulative Effect of Change in Accounting Principle** | **1,490** | (1,161) | 1,034 |
| **Cumulative Effect of Change in Accounting Principle, net of tax and minority interest** | **—** | (162) | — |
| **Net Income (Loss)** | **1,490** | (1,323) | 1,034 |
| **Dividends and Premiums on Redemption of Preferred and Preference Stock** | **9** | 15 | 13 |
| **Earnings (Loss) Available for Common Stockholders** | **$ 1,481** | $ (1,338) | $ 1,021 |
| **Common Stock Data** | | | |
| Weighted-average shares outstanding | **931** | 903 | 836 |
| Earnings (Loss) per share (from continuing operations) | | | |
| Basic | **$ 1.31** | $ (1.13) | $ 1.53 |
| Diluted | **$ 1.27** | $ (1.13) | $ 1.53 |
| Earnings (Loss) per share (from discontinued operations) | | | |
| Basic | **$ 0.28** | $ (0.17) | $ (0.31) |
| Diluted | **$ 0.27** | $ (0.17) | $ (0.31) |
| Earnings (Loss) per share (before cumulative effect of change in accounting principle) | | | |
| Basic | **$ 1.59** | $ (1.30) | $ 1.22 |
| Diluted | **$ 1.54** | $ (1.30) | $ 1.22 |
| Earnings (Loss) per share | | | |
| Basic | **$ 1.59** | $ (1.48) | $ 1.22 |
| Diluted | **$ 1.54** | $ (1.48) | $ 1.22 |
| Dividends per share | **$ 1.10** | $ 1.10 | $ 1.10 |

CONSOLIDATED BALANCE SHEETS

| (In millions) | December 31 2004 | 2003 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 533** | $ 397 |
| Short-term investments | **1,319** | 763 |
| Receivables (net of allowance for doubtful accounts of $276 at 2004 and $280 at 2003) | **3,237** | 2,953 |
| Inventory | **942** | 941 |
| Assets held for sale | **40** | 361 |
| Unrealized gains on mark-to-market and hedging transactions | **962** | 1,566 |
| Other | **938** | 694 |
| Total current assets | **7,971** | 7,675 |
| **Investments and Other Assets** | | |
| Investments in unconsolidated affiliates | **1,292** | 1,398 |
| Nuclear decommissioning trust funds | **1,374** | 925 |
| Goodwill | **4,148** | 3,962 |
| Notes receivable | **232** | 260 |
| Unrealized gains on mark-to-market and hedging transactions | **1,379** | 1,857 |
| Assets held for sale | **84** | 1,444 |
| Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of $15 and $32 at December 31, 2004 and 2003, respectively) | **1,128** | 1,353 |
| Other | **1,896** | 2,137 |
| Total investments and other assets | **11,533** | 13,336 |
| **Property, Plant and Equipment** | | |
| Cost | **46,806** | 45,987 |
| Less accumulated depreciation and amortization | **13,300** | 12,139 |
| Net property, plant and equipment | **33,506** | 33,848 |
| **Regulatory Assets and Deferred Debits** | | |
| Deferred debt expense | **297** | 275 |
| Regulatory assets related to income taxes | **1,269** | 1,152 |
| Other | **894** | 939 |
| Total regulatory assets and deferred debits | **2,460** | 2,366 |
| **Total Assets** | **$ 55,470** | $ 57,225 |

| (In millions) | December 31 2004 | 2003 |
|---|---|---|
| **LIABILITIES AND COMMON STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | **$ 2,414** | $ 2,317 |
| Notes payable and commercial paper | **68** | 130 |
| Taxes accrued | **273** | 14 |
| Interest accrued | **287** | 304 |
| Liabilities associated with assets held for sale | **30** | 651 |
| Current maturities of long-term debt | **1,832** | 1,200 |
| Unrealized losses on mark-to-market and hedging transactions | **819** | 1,283 |
| Other | **1,815** | 1,849 |
| Total current liabilities | **7,538** | 7,748 |
| **Long-term Debt,** including debt to affiliates of $876 at 2003 | **16,932** | 20,622 |
| **Deferred Credits and Other Liabilities** | | |
| Deferred income taxes | **5,228** | 4,120 |
| Investment tax credit | **154** | 165 |
| Unrealized losses on mark-to-market and hedging transactions | **971** | 1,754 |
| Liabilities associated with assets held for sale | **14** | 737 |
| Asset retirement obligations | **1,926** | 1,707 |
| Other | **4,646** | 4,789 |
| Total deferred credits and other liabilities | **12,939** | 13,272 |
| **Commitments and Contingencies** | | |
| **Minority Interests** | **1,486** | 1,701 |
| **Preferred and Preference Stock without Sinking Fund Requirements** | **134** | 134 |
| **Common Stockholders' Equity** | | |
| Common stock, no par, 2 billion shares authorized; 957 million and 911 million shares outstanding at December 31, 2004 and 2003, respectively | **11,252** | 9,519 |
| Retained earnings | **4,539** | 4,060 |
| Accumulated other comprehensive income | **650** | 169 |
| Total common stockholders' equity | **16,441** | 13,748 |
| **Total Liabilities and Common Stockholders' Equity** | **$ 55,470** | $ 57,225 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| (In millions) | **2004** | 2003 | 2002 |
| **Cash Flows from Operating Activities** | | | |
| Net income (loss) | **$ 1,490** | $ (1,323) | $ 1,034 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization (including amortization of nuclear fuel) | **2,037** | 1,987 | 1,692 |
| Cumulative effect of change in accounting principle | **—** | 162 | — |
| Gains on sales of investments in commercial and multi-family real estate | **(201)** | (103) | (106) |
| Gains on sales of equity investments and other assets | **(193)** | (86) | (81) |
| Impairment charges | **194** | 3,495 | 545 |
| Deferred income taxes | **867** | (534) | 495 |
| Purchased capacity levelization | **92** | 194 | 175 |
| Contribution to company-sponsored pension plans | **(278)** | (192) | (9) |
| (Increase) decrease in | | | |
| Net realized and unrealized mark-to-market and hedging transactions | **216** | (15) | 596 |
| Receivables | **(188)** | 1,126 | 12 |
| Inventory | **(48)** | (30) | 134 |
| Other current assets | **(35)** | (77) | (335) |
| Increase (decrease) in | | | |
| Accounts payable | **(5)** | (1,047) | 798 |
| Taxes accrued | **188** | (168) | (332) |
| Other current liabilities | **116** | 79 | (194) |
| Capital expenditures for residential real estate | **(322)** | (196) | (179) |
| Cost of residential real estate sold | **268** | 167 | 117 |
| Other, assets | **(305)** | (249) | 205 |
| Other, liabilities | **246** | 206 | (368) |
| Net cash provided by operating activities | **4,139** | 3,396 | 4,199 |
| **Cash Flows from Investing Activities** | | | |
| Capital expenditures, net of refund | **(2,055)** | (2,242) | (4,745) |
| Investment expenditures | **(46)** | (153) | (584) |
| Acquisition of Westcoast Energy Inc., net of cash acquired | **—** | — | (1,707) |
| Purchases of available-for-sale securities | **(64,594)** | (40,032) | (12,393) |
| Proceeds from sales and maturities of available-for-sale securities | **64,092** | 39,641 | 11,859 |
| Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable | **1,542** | 1,966 | 516 |
| Proceeds from the sales of commercial and multi-family real estate | **606** | 314 | 169 |
| Other | **(309)** | (162) | (69) |
| Net cash used in investing activities | **(764)** | (668) | (6,954) |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from the: | | | |
| Issuance of long-term debt | **153** | 3,009 | 5,114 |
| Issuance of common stock and common stock related to employee benefit plans | **1,704** | 277 | 1,323 |
| Payments for the redemption of: | | | |
| Long-term debt | **(3,646)** | (2,849) | (1,837) |
| Preferred stock of a subsidiary | **(176)** | (38) | — |
| Preferred and preference stock | **—** | — | (88) |
| Guaranteed preferred beneficial interests in subordinated notes | **—** | (250) | — |
| Notes payable and commercial paper | **(67)** | (1,702) | (1,067) |
| Distributions to minority interests | **(1,477)** | (2,508) | (2,260) |
| Contributions from minority interests | **1,277** | 2,432 | 2,535 |
| Dividends paid | **(1,065)** | (1,051) | (938) |
| Other | **19** | 23 | 64 |
| Net cash (used in) provided by financing activities | **(3,278)** | (2,657) | 2,846 |
| Changes in cash and cash equivalents associated with assets held for sale | **39** | (55) | — |
| Net increase in cash and cash equivalents | **136** | 16 | 91 |
| **Cash and cash equivalents at beginning of year** | **397** | 381 | 290 |
| **Cash and cash equivalents at end of year** | **$ 533** | $ 397 | $ 381 |
| **Supplemental Disclosures** | | | |
| Cash paid for interest, net of amount capitalized | **$ 1,323** | $ 1,324 | $ 1,011 |
| Cash (refunded) paid for income taxes | **$ (339)** | $ (18) | $ 344 |
| Significant non-cash transactions: | | | |
| Debt retired in connection with disposition of businesses | **$ 840** | $ 387 | $ — |
| Note receivable from sale of southeast plants | **$ 48** | $ — | $ — |
| Remarketing of senior notes | **$ 1,625** | $ — | $ — |
| Acquisition of Westcoast Energy Inc. | | | |
| Fair value of assets acquired | **$ —** | $ — | $ 9,254 |
| Liabilities assumed, including debt and minority interests | **—** | — | 8,047 |
| Issuance of common stock | **—** | — | 1,702 |
| Capital lease obligations related to property, plant and equipment | **$ —** | $ — | $ 117 |

## CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

| (In millions) | Common Stock Shares | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss): Foreign Currency Adjustments | Net Gains (Losses) on Cash Flow Hedges | Minimum Pension Liability Adjustment | Total |
|---|---|---|---|---|---|---|---|
| **Balance December 31, 2001** | **777** | **$6,217** | **$6,292** | **$(307)** | **$487** | **$ —** | **$12,689** |
| Net income | | | 1,034 | | | | 1,034 |
| Other Comprehensive Income | | | | | | | |
| Foreign currency translation adjustments | | | | (340) | | | (340) |
| Net unrealized gains on cash flow hedges[b] | | | | | 37 | | 37 |
| Reclassification into earnings from cash flow hedges[c] | | | | | (102) | | (102) |
| Minimum pension liability adjustment[d] | | | | | | (484) | (484) |
| Total comprehensive income | | | | | | | 145 |
| Dividend reinvestment and employee benefits | 13 | 342 | | | | | 342 |
| Equity offering | 55 | 975 | | | | | 975 |
| Westcoast acquisition | 50 | 1,702 | | | | | 1,702 |
| Common stock dividends | | | (905) | | | | (905) |
| Preferred and preference stock dividends | | | (13) | | | | (13) |
| Other capital stock transactions, net | | | 9 | | | | 9 |
| **Balance December 31, 2002** | **895** | **$9,236** | **$6,417** | **$(647)** | **$422** | **$(484)** | **$14,944** |
| Net loss | | | (1,323) | | | | (1,323) |
| Other Comprehensive Loss | | | | | | | |
| Foreign currency translation adjustments[a] | | | | 986 | | | 986 |
| Foreign currency translation adjustments reclassified into earnings as a result of the sale of European operations | | | | (24) | | | (24) |
| Net unrealized gains on cash flow hedges[b] | | | | | 116 | | 116 |
| Reclassification into earnings from cash flow hedges[c] | | | | | (240) | | (240) |
| Minimum pension liability adjustment[d] | | | | | | 40 | 40 |
| Total comprehensive loss | | | | | | | (445) |
| Dividend reinvestment and employee benefits | 16 | 283 | (6) | | | | 277 |
| Common stock dividends | | | (993) | | | | (993) |
| Preferred and preference stock dividends | | | (15) | | | | (15) |
| Other capital stock transactions, net | | | (20) | | | | (20) |
| **Balance December 31, 2003** | **911** | **$9,519** | **$4,060** | **$315** | **$298** | **$(444)** | **$13,748** |
| Net income | | | 1,490 | | | | 1,490 |
| Other Comprehensive Income | | | | | | | |
| Foreign currency translation adjustments | | | | 279 | | | 279 |
| Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business | | | | (54) | | | (54) |
| Net unrealized gains on cash flow hedges[b] | | | | | 311 | | 311 |
| Reclassification into earnings from cash flow hedges[c] | | | | | (83) | | (83) |
| Minimum pension liability adjustment[d] | | | | | | 28 | 28 |
| Total comprehensive income | | | | | | | 1,971 |
| Dividend reinvestment and employee benefits | 5 | 108 | 20 | | | | 128 |
| Equity offering | 41 | 1,625 | | | | | 1,625 |
| Common stock dividends | | | (1,018) | | | | (1,018) |
| Preferred and preference stock dividends | | | (9) | | | | (9) |
| Other capital stock transactions, net | | | (4) | | | | (4) |
| **Balance December 31, 2004** | **957** | **$11,252** | **$4,539** | **$540** | **$526** | **$(416)** | **$16,441** |

[a] Foreign currency translation adjustments, net of $114 tax benefit in 2003
[b] Net unrealized gains on cash flow hedges, net of $170 tax expense in 2004, $49 tax expense in 2003 and $72 tax expense in 2002
[c] Reclassification into earnings from cash flow hedges, net of $45 tax benefit in 2004, $130 tax benefit in 2003 and $94 tax benefit in 2002
[d] Minimum pension liability adjustment, net of $18 tax expense in 2004, $27 tax expense in 2003 and $309 tax benefit in 2002

Pages 1 and 4 of the Chairman's letter reference a 2004 ongoing basic earnings-per-share goal of $1.20, which we beat by 18 cents. Page 4 of the Chairman's letter also references the 2005 ongoing basic earnings-per-share target of $1.60. Ongoing basic earnings per share is a non-GAAP (generally accepted accounting principles) financial measure because it excludes the per-share effects of any "special items," which represent certain income or charges which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure is basic earnings per share.

Information to reconcile the 2005 ongoing basic earnings-per-share target to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items for 2005. The following is a reconciliation of ongoing to reported basic earnings per share for 2004:

**Ongoing Basic Earnings per Share – 2004**
(In millions, except earnings per share)

| | Pre-tax Amount | Tax Effect | Basic EPS Impact |
|---|---|---|---|
| **Ongoing Basic Earnings per Share** | | | **$ 1.38** |
| Net gain on sale of discontinued operations (net of minority interest of $7 million) | $ 278 | $ (16) | 0.28 |
| Net loss on asset sales, primarily sale of southeast U.S. plants (including minority interest benefit of $25 million) | (206) | 72 | (0.14) |
| Impairments and other related charges (net of minority interest of $12 million) | (25) | 9 | (0.02) |
| Litigation reserves and settlements (net of minority interest of $5 million) and contract termination charges | (5) | 2 | 0.00 |
| Tax benefit from restructuring | – | 48 | 0.05 |
| Adjustment to captive insurance reserve | 64 | (22) | 0.04 |
| Net loss on sales of equity investments (including minority interest benefit of $7 million) and loss on asset exchanges | (8) | 3 | 0.00 |
| Total basic earnings-per-share impact of special items | | | 0.21 |
| **Basic Earnings per Share, as Reported** | | | **$ 1.59** |

Page 1 of the Chairman's letter references a debt reduction of $4.6 billion. This amount represents a non-GAAP measure because it includes changes in amounts presented in the Consolidated Balance Sheets as other than "debt," including amounts classified as "liabilities associated with assets held for sale" and "minority interests." The following is a reconciliation of the $4.6 billion to the changes in the amounts reported in the Consolidated Balance Sheets as "debt":

**Reconciliation of Debt Paydown to Consolidated Balance Sheets – 2004**
(In millions)

| | 12/31/03 | 12/31/04 | Difference |
|---|---|---|---|
| Long-term debt | $20,622 | $16,932 | $ (3,690) |
| Current maturities of long-term debt and preferred stock | 1,200 | 1,832 | 632 |
| Notes payable and commercial paper | 130 | 68 | (62) |
| **Total Debt** | 21,952 | 18,832 | **(3,120)** |
| Changes due to foreign currency | | | (300) |
| Other cash changes | | | (89) |
| **Sub-total** | | | **(389)** |
| Redeem Australia debt | | | (890) |
| Redeem Westcoast Energy, Inc. preferred securities | | | (176) |
| **Total Change** | | | **$(4,575)** |
| Total debt paydown disclosed | | | $ (4,600) |

Page 1 of the Chairman's letter references $3.1 billion of proceeds from asset sales in 2004. This amount represents a non-GAAP measure because it includes amounts that are presented in the Consolidated Statements of Cash Flows as other than net "proceeds from sales of equity investments and other assets, and sales of and collections on notes receivable," including $750 million of tax benefits and $840 million of non-cash debt reductions.

The Financial Highlights on page 2 include amounts for "earnings (loss) before interest and taxes from continuing operations." This non-GAAP measure represents the combination of "operating income (loss)" and "other income and expenses" as presented in the Consolidated Statements of Operations, and it excludes results and impacts from discontinued operations.

Page 3 of the Chairman's letter mentions a 2004 contribution from Crescent Resources of more than $440 million. This amount represents the cash that Crescent Resources generated from its operating and investing activities and contributed to Duke Energy.

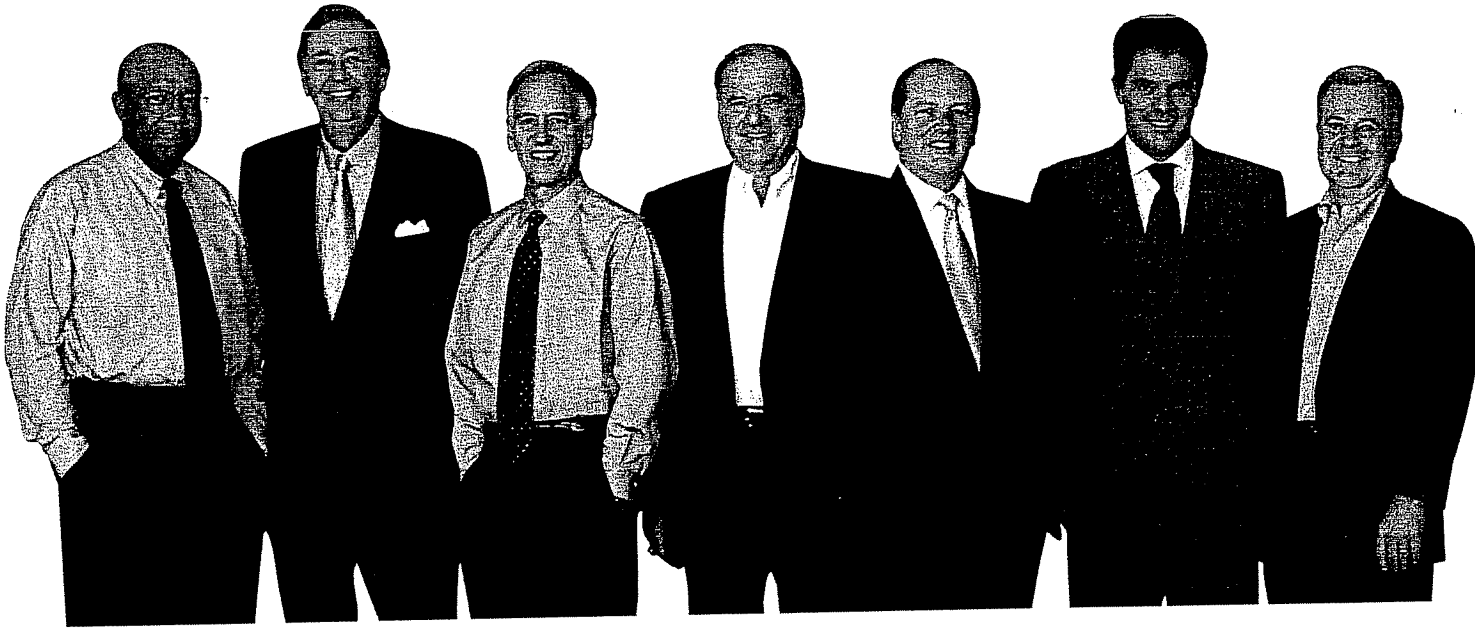
In this report, for certain segments we use ongoing segment EBIT (earnings before interest and taxes) as a measure of historical and anticipated future performance. For some segments we also use a forecasted ongoing segment EBIT growth rate, which is based on historical and forecasted ongoing segment EBIT, as an indicator of anticipated future compound annual growth rates. When used for future periods, ongoing segment EBIT may also include amounts that may be reported as discontinued operations. Ongoing segment EBIT and related growth rates are non-GAAP financial measures because they represent reported segment EBIT adjusted for special items. The most directly comparable GAAP measure for ongoing segment EBIT is reported segment EBIT, which represents EBIT from continuing operations, including any special items.

For future periods, information to reconcile ongoing segment EBIT and related growth rates to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast special items or amounts that may be reported as discontinued operations. The following is a reconciliation of ongoing segment EBIT to reported segment EBIT for 2004:

**Reconciliation of Ongoing to Reported Segment EBIT – 2004**
(In millions)

| | | Special Items | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Ongoing Segment EBIT | Gains (Losses) on Sales of Assets | Gains (Losses) on Sales of Equity Investments | Impairment and Other Related Charges | Early Contract Termination Charges | Enron/ California Settlements, net | Total | Reported Segment EBIT |
| **Earnings Before Interest and Taxes from Continuing Operations** | | | | | | | | |
| Duke Energy North America | $(288) | $(228)[a] | $– | $ (2) | $(20)[b] | $3[b,c] | $(247) | $(535) |
| International Energy | 236 | (2) | 1 | (13)[b] | – | – | (14) | 222 |

a Net of minority interest benefit of $26 million
b Recorded in operation and maintenance expense
c Net of minority interest of $5 million



(Left to right) Robert J. Brown, George Dean Johnson Jr., G. Alex Bernhardt Sr., A. Max Lennon, Paul M. Anderson, Roger Agnelli, James T. Rhodes

BOARD MEMBERS

**Roger Agnelli,** 45, *President and Chief Executive Officer, Companhia Vale do Rio Doce (CVRD), Brazil. Compensation Committee. Finance and Risk Management Committee. Director since 2004.* Agnelli leads CVRD, a global mining company and the world's largest producer of iron ore. For several years he held various positions at Bradesco, a Brazilian financial conglomerate. Agnelli joined Duke Energy's Board of Directors in November 2004.

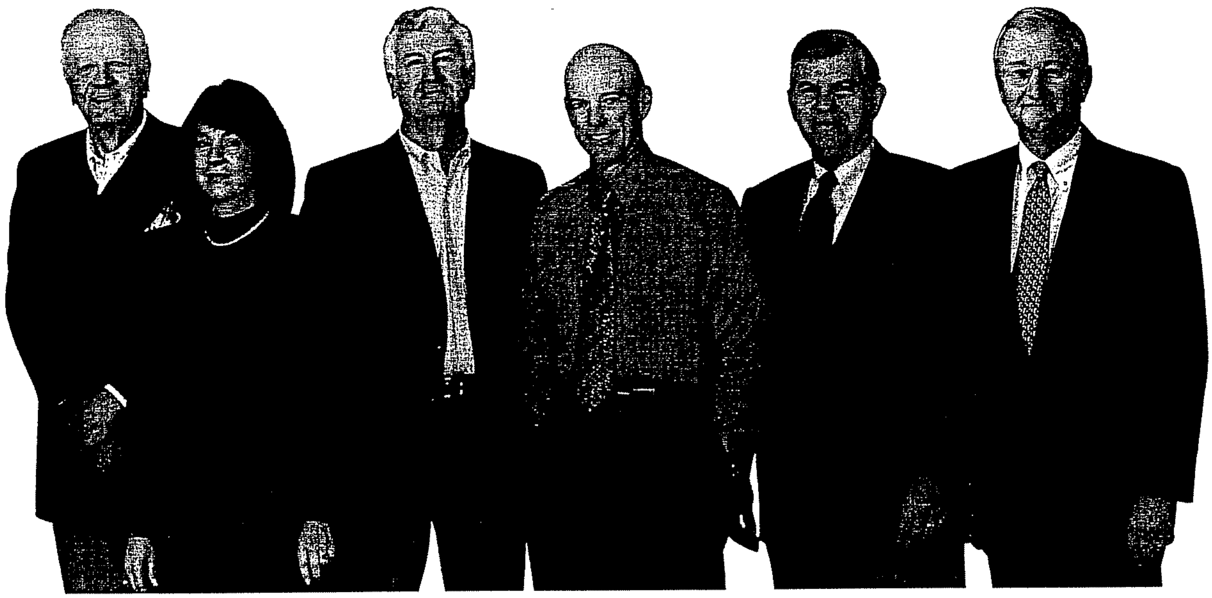
**Paul M. Anderson,** 59, *Chairman of the Board and Chief Executive Officer, Duke Energy. Director since 2003.* Anderson rejoined Duke Energy in 2003, having served as its first president and chief operating officer in 1997 and 1998, and with Duke Energy predecessor companies since 1977. He retired as managing director and chief executive officer of Australia-based BHP Billiton Ltd. in 2002.

**G. Alex Bernhardt Sr.,** 62, *Chairman and Chief Executive Officer, Bernhardt Furniture Co. Audit Committee. Nuclear Oversight Committee. Director since 1991.* Besides leading the family business in Lenoir, N.C., Bernhardt serves as a director of Cities in Schools and Smart Start, and on the Davidson College Board of Trustees.

**Robert J. Brown,** 70, *Chairman and Chief Executive Officer, B&C Associates Inc. Audit Committee. Corporate Governance Committee. Director since 1994.* Brown founded B&C Associates Inc., a marketing research and public relations firm in High Point, N.C. He serves on the Board of Trustees of the National Urban League. Brown will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

**William T. Esrey,** 65, *Chairman Emeritus, Sprint Corp. Chair, Audit Committee. Director since 1985.* Esrey joined Sprint in 1980, and went on to serve as the company's chief financial officer, president, chief executive officer and chairman. He also served as chairman of Japan Telecom from 2003 to 2004.

**Ann Maynard Gray,** 59, *Former President, Diversified Publishing Group of ABC Inc. Lead Director. Chair, Corporate Governance Committee. Compensation Committee. Finance and Risk Management Committee. Nuclear Oversight Committee. Director since 1994.* At American Broadcasting Companies Inc., Gray also held positions as treasurer and vice president of planning. She currently serves as a trustee for J.P. Morgan Funds.



(Left to right) Leo E. Linbeck Jr., Ann Maynard Gray, Michael E.J. Phelps, William T. Esrey, James G. Martin, Dennis R. Hendrix

**Dennis R. Hendrix,** *65, Retired Chairman of the Board, PanEnergy Corp. Compensation Committee. Finance and Risk Management Committee. Director since 2004.* Hendrix rejoined the Board of Directors in December 2004. He was chairman of the board of PanEnergy Corp prior to the 1997 merger of Duke Power and PanEnergy.

**George Dean Johnson Jr.,** *62, Owner, Johnson Development Associates Inc. Finance and Risk Management Committee. Director since 1986.* Johnson was formerly chief executive officer and director of Extended Stay America Inc. He served in the S.C. House of Representatives and as a director of the Federal Reserve Bank of Richmond. Johnson will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

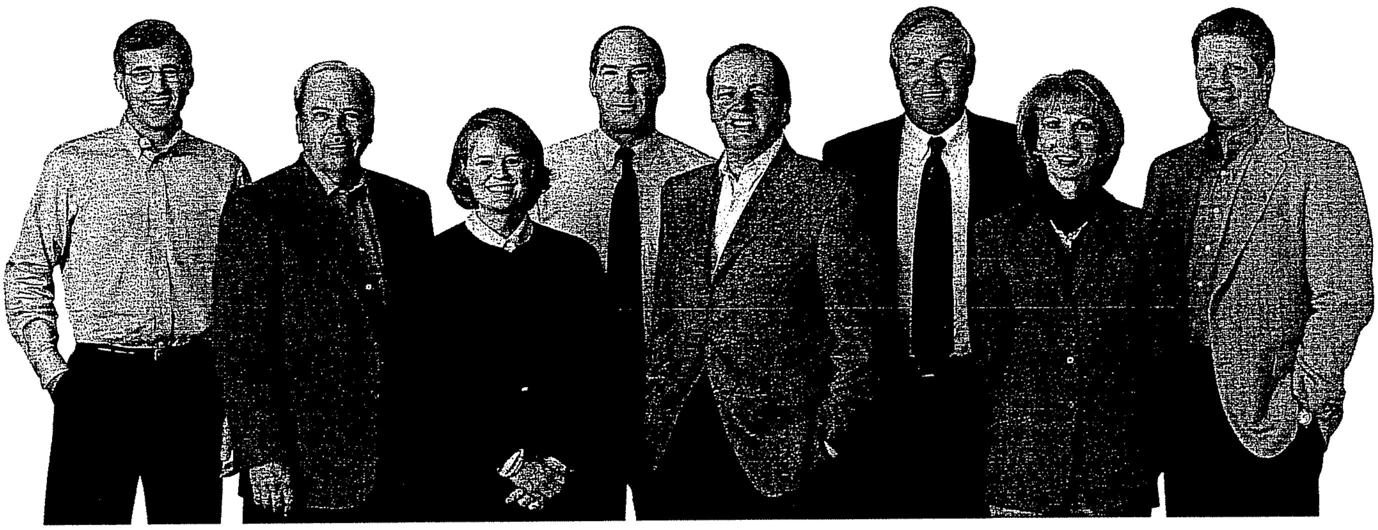
**A. Max Lennon,** *64, President, Education and Research Services. Audit Committee. Director since 1988.* Lennon is a former president of Clemson University and Mars Hill College. He also served as president and chief executive officer of Eastern Foods Inc.

**Leo E. Linbeck Jr.,** *70, Senior Chairman, Linbeck Corp. Compensation Committee. Finance and Risk Management Committee. Director since 1986.* Linbeck Corp. is a group of four construction-related firms headquartered in Houston, Texas. Linbeck is past chairman and director of the Federal Reserve Bank of Dallas. He will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

**James G. Martin,** *69, Corporate Vice President, Carolinas HealthCare System. Chair, Compensation Committee. Corporate Governance Committee. Nuclear Oversight Committee. Director since 1994.* Martin was governor of the state of North Carolina from 1985 to 1993, and previously served as a U.S. congressman. He is chairman of the Global TransPark Foundation Inc.

**Michael E.J. Phelps,** *57, Chairman, Dornoch Capital Inc. Chairman, Duke Energy Canadian Advisory Council. Chair, Finance and Risk Management Committee. Corporate Governance Committee. Director since 2002.* Phelps is former chairman of the board and chief executive officer of Westcoast Energy Inc., acquired by Duke Energy in 2002.

**James T. Rhodes,** *63, Retired Chairman, President and Chief Executive Officer, Institute of Nuclear Power Operations. Chair, Nuclear Oversight Committee. Audit Committee. Director since 2001.* Rhodes was formerly president and chief executive officer of Virginia Power. He is a member of the Advisory Council of the Electric Power Research Institute.



2004 Executive Committee (left to right): A.R. Mullinax, Fred Fowler, Martha Wyrsch, Jim Mogg, Paul Anderson, David Hauser, Julie Dill, Rich Osborne

## EXECUTIVE COMMITTEE

Duke Energy's Executive Committee is responsible for driving a strategy that generates shareholder value by providing a stable platform for growth and continued profitability. This group develops corporate strategy, allocates capital, outlines enterprise goals, implements Board direction, and in general leads the enterprise.

**Paul M. Anderson,** *Chairman of the Board and Chief Executive Officer.* Anderson has lead responsibility for positioning Duke Energy as a company that achieves superior results, focusing the organization on its vision and purpose, improving execution and ensuring clear accountability. He chairs the Executive Committee and the Expanded Executive Committee.

**Fred J. Fowler,** *President and Chief Operating Officer.* Fowler chairs Duke Energy's Enterprise Performance Committee, with responsibility for the operational, commercial and financial results of the company's energy-related businesses.

**David L. Hauser,** *Group Vice President and Chief Financial Officer.* Hauser is responsible for treasury, accounting, tax and risk management. His duties include certifying financial statements and overseeing risk control policies and systems.

**Jim W. Mogg,** *Group Vice President and Chief Development Officer.* Mogg oversees strategy and corporate transactions, corporate and human resources development, mergers and acquisitions, diversity and the company's real estate affiliate.

**A.R. Mullinax,** *Group Vice President and Chief Information Officer.* Mullinax leads information technology and is responsible for global sourcing and logistics, corporate real estate services and human resources services.

**Richard J. Osborne,** *Group Vice President, Public and Regulatory Policy.* Osborne has responsibility for Duke Energy's public policy agenda and relationships with regulators, legislators, communities and other key stakeholders.

**Martha B. Wyrsch.** Wyrsch served as group vice president, general counsel and secretary until March 1, 2005, when she became president and chief executive officer of Duke Energy Gas Transmission.

**Julie A. Dill,** *Secretary to the Executive Committee and Vice President, Investor and Shareholder Relations.* Dill is responsible for relationships and communication with the investment community, and for monitoring changes and trends in investment markets.

## EXPANDED EXECUTIVE COMMITTEE

The Expanded Executive Committee includes the Executive Committee members as well as the heads of the major business units. This group is responsible for corporate policies and programs that reach across the business units.

(Pictured on page 6)

**William H. Easter III,** *Chairman, President and Chief Executive Officer, Duke Energy Field Services.* Easter leads the company's natural gas gathering and processing and natural gas liquids business.

**Robert B. Evans,** *President and Chief Executive Officer, Duke Energy Americas.* Evans is responsible for Duke Energy's North American and Latin American wholesale energy generation business.

**Thomas C. O'Connor.** O'Connor served as president and chief executive officer of Duke Energy Gas Transmission until March 1, 2005. He will have responsibilities for corporate strategy upon his completion of Harvard University's Advanced Management Program, and will be joining the Executive Committee later in 2005.

**Ruth G. Shaw,** *President and Chief Executive Officer, Duke Power Company.* Shaw oversees the electric utility that serves more than 2 million customers in North Carolina and South Carolina.

### Annual Meeting
The 2005 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 12, 2005
Time: 10 a.m.
Place: O.J. Miller Auditorium,
Energy Center
526 South Church Street
Charlotte, NC 28202

### Shareholder Services
Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet. Send written requests to:

Investor Relations
Duke Energy
P.O. Box 1005
Charlotte, NC 28201-1005

For electronic correspondence, please go to "Contact Investor Relations" at: www.duke-energy.com/investors.

### Stock Exchange Listing
Duke Energy's common stock and certain issues of first and refunding mortgage bonds, preferred securities and senior notes are listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

### Web Site Addresses
Corporate home page:
www.duke-energy.com
Investor Relations:
www.duke-energy.com/investors

### InvestorDirect Choice Plan
The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or cash payment of dividends. Additionally, participants may register for DUK-Online.

### Financial Publications
Duke Energy will furnish to any shareholder, without charge, printed copies of the 2004 Summary Annual Report and SEC Form 10-K. Those and other financial publications can also be found on our Web site at www.duke-energy.com/investors.

### Electronic Delivery
With a shareholder's consent, we can stop mailing paper copies of financial information and proxy statements. You can go to www.icsdelivery.com/duk to enroll in electronic delivery. You will need to provide your Social Security number or Tax I.D. number, your e-mail address, and a PIN number of your choice for electronic voting.

### Duplicate Mailings
If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

### Transfer Agent and Registrar
Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common and preferred stock issues.

### Dividend Payment
Duke Energy has paid quarterly cash dividends on its common stock for 78 consecutive years. Dividends on common and preferred stock are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 16, Sept. 16 and Dec. 16, 2005.

### Bond Trustee
If you have questions regarding your bond account, call (800) 275-2048, or write to:

JPMorgan Chase Bank
Institutional Trust Services
P.O. Box 2320
Dallas, TX 75221-2320

We welcome your opinion on Duke Energy's 2004 Annual Report. Please visit www.duke-energy.com/investors, where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.